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One of the most important investment books of the last 50 years!"
—*Michael F. Price*

THE LITTLE BOOK
THAT
BEATS
THE
MARKET



JOEL GREENBLATT

FOREWORD BY ANDREW TOBIAS

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The Little Book That Beats the Market

Joel Greenblatt



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To my wonderful wife, Julie, and our five magnificent spin-offs

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Foreword

The best thing about this book—from which I intend to steal liberally for the next edition of *The Only Investment Guide You'll Ever Need*—is that most people won't believe it. Or, believing it, won't have the patience to follow its advice. That's good, because the more people who know about a good thing, the more expensive that thing ordinarily becomes . . . bye-bye bargain.

Yet unlike most “systems” meant to exploit anomalies in the market, Joel Greenblatt's simple notion will likely retain at least a good deal of its validity even if it becomes widely followed.

I don't want to spoil the surprise—the book is short enough as it is. My role here is simply to introduce you to the author, so you have some sense of just how far you can trust him.

I've known Joel for decades. He is really smart, really modest, really well intentioned and—here is the unusual part—really successful. (I mean: really successful.)

More to the point, his success has come from shrewd investing (not from selling books).

He is also funny. I read the first couple of chapters of this book to my 11-year-old nephew, Timmy, and we both enjoyed it. Timmy, with no investable funds that I know of, then fell asleep as I raced to the end, mentally rejiggering my retirement plan.

Let me tell you this much: In the beginning, there were mutual funds, and that was good. But their sales fees and expenses were way too high. Then came no-load funds,

which were better. They eliminated the sales fee, but were still burdened with management fees and with the tax and transactional burden that comes from active management. Then came “index funds,” which cut fees, taxes, and transaction costs to the bone. Very, very good.

What Joel would have you consider, in effect, is an index-fund-plus, where the “plus” comes from including in your basket of stocks only good businesses selling at low valuations. And he has an easy way for you to find them.

Not everyone can beat the averages, of course—by definition. But my guess is that patient people who follow Joel’s advice will beat them over time. And that if millions of people should adopt this strategy (Vanguard: please hurry up and offer a low-priced fund like this), two things will happen. First, the advantage of investing this way will diminish but not disappear. Second, stock market valuations will become ever so slightly more rational, making our capital allocation process ever so slightly more efficient.

Not bad work for a skinny little book.

Now, gather ye what 11-year-olds ye may, and dive in.

—Andrew Tobias, author of
The Only Investment Guide You’ll Ever Need

Introduction

This book was originally inspired by my desire to give each of my five children a gift. I figured if I could teach them how to make money for themselves, then I would be giving them a great gift—truly one that would keep giving. I also figured that if I could explain how to make money in terms that even my kids could understand (the ones already in sixth and eighth grades, anyway), then I could pretty much teach anyone how to be a successful stock market investor.

While the concepts covered in this book may seem simple—perhaps too simple for sophisticated investors—each step along the way is there for a reason. Stay with it, and I assure you the payoff for both beginning and experienced investors will be huge.

After more than 25 years of investing professionally and after 9 years of teaching at an Ivy League business school, I am convinced of at least two things:

1. If you really want to “beat the market,” most professionals and academics can’t help you, and
2. That leaves only one real alternative: You must do it yourself.

Luckily, that might not be such a bad thing. As improbable as it may seem, you can learn to beat the market. Through a simple, step-by-step process, this book can teach you how. To help you along, I have included a magic formula. The formula is simple, it makes perfect sense, and with it, you can beat the market, the professionals, and the academics by a wide margin. And you can do it with low risk. The formula has worked for many years and will continue to work even after everyone knows it. Although the formula is easy to use and will not take much of your time, it will work

for you only if you make the effort to fully understand why it works.

Along the way, you will learn:

- How to view the stock market
- Why success eludes almost all individual and professional investors
- How to find good companies at bargain prices
- How you can beat the market all by yourself

I have included an Appendix section for those of you with a higher level of financial training, but it is not necessary for people to read or understand the appendixes to be able to understand and apply the methods found in this book. The truth is that you don't need an MBA to beat the market. Knowing lots of sophisticated formulas or financial terms isn't what makes the difference. Understanding the simple concepts in this book . . . is.

So please enjoy this gift. May the small investment of time (and 20 bucks or so) greatly enrich your future. Good luck.